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Date 1-21-97

Surname [REDACTED]
[REDACTED]
[REDACTED]

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NOV 27 1996

[REDACTED]
[REDACTED]
[REDACTED]

Employer Identification Number: [REDACTED]
Key District: [REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code. We have determined that you do not qualify for exemption under that section of the Code. Our reasons for this conclusion and the facts upon which it is based are explained below.

The information submitted indicates that you were incorporated on [REDACTED] under the [REDACTED]. Your Articles of Incorporation provide that the kind or kinds of business in which you intend to engage are "to serve as a vehicle for employers of this region to act in concert for the purpose of purchasing health insurance benefits for their employees. Your Bylaws provide that your membership shall be open to any employer who shall meet the nondiscriminatory rules established by your board of directors. In your letter dated [REDACTED], you state that your membership is open to any employer doing business in [REDACTED]. You state that there are no restrictions on the type of business for any member employer, but that employers should have a minimum of ten employees that will participate in the plan and that employers with less than [REDACTED] employees may be considered for membership on an exception basis. In your application, you state that you are comprised of more than [REDACTED] and [REDACTED] who have joined forces to regain control of health care costs.

In your application, you state that your mission is to provide area employers access to high quality, cost-effective care using cost-efficient local providers, and that your goal is long term health insurance savings.

[REDACTED]

In your application, you also state that your program utilizes a preferred provider organization plan design, which rewards employees and dependents by providing a higher level of insurance coverage each time the employee selects a medical provider who has agreed to participate in the plan. You state that [REDACTED] administer your plan. You also state that [REDACTED]

[REDACTED] manages health care and insurance costs for [REDACTED] and their dependents who are enrolled in the company's health maintenance organization and preferred provider organization plans through more than [REDACTED] employers.

You state that you were formed to review medical insurance costs and to find or provide alternatives to rising costs for your members. You determined that employers in the rural counties you serve were paying a premium for insurance coverage due to a lack of managed care alternatives that would access low cost/high quality local providers. You were able to establish a network of providers to compete with commercial carriers in a managed care program. You state that your founders spent three years meeting with coalition leaders as well as various insurance providers to facilitate managed care alternatives; [REDACTED] met with your founders on numerous occasions to explain why [REDACTED] didn't see a need for alternative products, and eventually told you that the product just could not be offered. You state that other insurance companies such as [REDACTED] and numerous [REDACTED] met with your founders but also were unable to meet cost and operational objectives. You state that eventually, [REDACTED] was able to offer a product flexible enough to meet all concerns and network requirements; along with your network, [REDACTED] was able to provide a product workable in [REDACTED]. You state that no written contract exists between [REDACTED] and you.

Your quarterly newsletter, published by [REDACTED] labels itself as a quarterly reference guide to the [REDACTED] and contains various short articles about the benefits the Program offers to your members. The newsletter has stated that your membership will realize a cumulative savings of more than \$[REDACTED] during their first year and that [REDACTED] guarantee assures that your members' costs in the following year will be less than their rates prior to switching to you. One newsletter states that the Program guarantees members a [REDACTED] reduction in their current health insurance premiums if they have [REDACTED] and a [REDACTED] reduction if they are covered by any other carrier, and that these reduced rates are guaranteed for a full 12 months.

[REDACTED]

The financial information submitted with your application indicates that your income consists solely of membership dues and a small amount of interest.

In response to our question about your utilization of time on each phase of your operations, you state in your letter dated [REDACTED], that your board of directors meets formally to review business issues and develop policies at regular meetings, scheduled every other month and lasting about [REDACTED] hours. You also conduct an annual meeting open to all your members. You state that your board spends its time reviewing membership issues/complaints, utilization costs based on records from [REDACTED], provisions for special medical/wellness programs, as well as membership potential and budgetary items, and that it does not deal with day-to-day operations of [REDACTED].

Section 501(c) (6) of the Code provides for the exemption from federal income tax of business leagues, chambers of commerce, real-estate boards, or boards of trade, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c) (6)-1 of the Income Tax Regulations provides that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for a profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league.

Rev. Rul. 56-65, 1956-1 C.B. 199, holds that a local organization whose principal activity consists of furnishing particular information and specialized individual services to its individual members engaged in a particular industry, through publications and other means to effect economies in the operation of their individual businesses, is performing particular services for individual persons. Such organization, therefore, is not entitled to exemption under section 501(c) (6) of the Code as a business league even though it performs functions which are of benefit to the particular industry and the public generally.

The activities of the organization consist of the maintenance of plan rooms for the convenience of members, where plans and specifications for local construction projects, together with the names of general contractors bidding on specific projects, are filed.

Rev. Rul. 65-164, 1965-1 C.B. 238, holds that negotiating written collective bargaining labor contracts for the general membership, interpreting such contracts, and mediating or settling jurisdictional and other disputes are to be considered incidental activities under section 501(c)(6) of the Code since these activities further the common purpose with respect to the common labor problems of the business group and do not represent services to individual members which the members could purchase elsewhere. The revenue ruling also states that where such services do not further the common interests and individual members derive a direct and non-incidental benefit from the services rendered, the organization would not qualify for exemption under section 501(c)(6).

Rev. Rul. 66-151, 1966-1 C.B. 152, holds that the management of health and welfare plans for a fee by a business league exempt under section 501(c)(6) of the Code is unrelated trade or business within the meaning of section 513. In the revenue ruling, the organization's purpose and principal activity is to represent its member firms in all matters pertaining to their relations with labor and labor unions. The organization also regularly manages health and welfare plans for its members, receiving a fixed fee for each employee covered by a plan. Significant amounts of its income and expenses are attributable to the management of these plans.

Rev. Rul. 68-264, 1968-1 C.B. 264, holds that primary activities that constitute a regular business of a kind ordinarily carried on for profit will preclude exemption from federal income tax under section 501(c)(6) of the Code. In this case, the organization was providing services to members and nonmembers.

Rev. Rul. 74-81, 1974-1 C.B. 135, holds that a nonprofit organization formed to promote the business welfare and interests of persons engaged in the contracting trade and related industries and whose principal activity is to provide its members with group workmen's compensation insurance is not entitled to exemption under section 501(c)(6) of the Code. The revenue ruling states that by providing group workmen's compensation insurance for its members, the organization relieves the members of obtaining this insurance on an individual basis, resulting in a convenience in the conduct of their businesses. Therefore, the

organization is rendering particular services for individual persons as distinguished from the improvement of business conditions in the contracting and related industries generally, and does not qualify for exemption from federal income tax under section 501(c)(6) of the Code.

In Associated Master Barbers & Beauticians of America, Inc. v. Commissioner, 69 TC 53 (1977), the court sustained the revocation of the petitioner's exempt status under section 501(c)(6) of the Code because of the extensive commercial services provided to members. The court stated:

Because these activities serve as a convenience or economy to petitioner's members in the operation of their business, we think they constitute "particular services" as proscribed by the regulations. By providing insurance or textbooks for its members, the petitioner relieves its members of obtaining insurance or textbooks on an individual basis from a nonexempt commercial business. If the petitioner did not provide these goods and services, its members would have to obtain them from nonexempt businesses at a substantial increased cost. Thus, the organization is rendering "particular services" for the individual members as distinguished from an improvement of business conditions in barbering and beautician professions generally.

From the facts you have presented, it is clear that you were formed for, and your primary activity consists of, negotiating with for-profit health care providers for discounted health care services for your employer members. Also, almost all of your activities that are not directly concerned with the active negotiations for the health care services revolve around and are connected with or dependent upon this central activity. We have determined that your negotiating activity is the performance of particular services for your individual members, and, as such, is proscribed from being a primary activity for purposes of exemption under section 501(c)(6) of the Code pursuant to section 1.501(c)(6)-1 of the regulations. The argument described in Rev. Rul. 56-65, supra, is also applicable to you because your performance of particular services is your primary activity.

Your negotiating activity is not similar to the exempt negotiation activity carried on by the organization described in Rev. Rul. 65-164, supra, because your negotiations represent services to individual members which the members may purchase elsewhere. Also, your members receive a direct and non-incidental benefit from your services. Similar to the

[REDACTED]

organization described in Rev. Rul. 74-81, supra, your primary activity relieves your members of negotiating and obtaining this health insurance on an individual basis, resulting in a convenience in the conduct of their businesses. The fact that the health services may be more expensive if sought by your members individually rather than collectively is immaterial for purposes of exemption as noted in Associated Master Barbers & Beauticians of America, Inc., supra.

For these reasons, we conclude that you do not qualify for recognition of exemption from federal income tax under section 501(c)(6) of the Code. You are required to file federal income tax returns.

You have the right to protest this ruling if you believe that it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement must be submitted within 30 days of the date of this letter and must be signed by one of your officers. You also have a right to a conference in this office after your protest statement is submitted. If you want a conference, you must request it when you file your protest statement. If you are to be represented by someone who is not one of your officers, he/she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements.

If we do not hear from you within 30 days, this ruling will become final and copies of it will be forwarded to your key District Director. Thereafter, any questions about your federal income tax status should be addressed to your key District Director.

When sending additional letters with respect to this case to the Internal Revenue Service, you will expedite their receipt by placing the following address on the envelope:

Internal Revenue Service
CP:E:EO:T:5-CCH, Room 6539
1111 Constitution Avenue, N.W.
Washington, D.C. 20224

Sincerely yours,

(signed) Garland A. Carter

cc: [REDACTED]

Garland A. Carter
Chief, Exempt Organizations
Technical Branch 5